



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 3/6/2009

GAIN Report Number: CH9015

China, Peoples Republic of

Agricultural Situation

Weekly Hongbao

2009

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Report Highlights:

This report provides a news synopsis of trade policy and agriculture/commodities in China. News includes: 1) Food Safety Law Passes 2) Ministry of Health to Issue Dairy National Standard 3) Record Exports of Aquatic Products 4) Retailer Direct Farm Sourcing Growing in China 5) Clenbuterol Contaminated Pork in Guangzhou

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Beijing [CH1]
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Food Safety Law Passes: On February 28, China's National People's Congress Standing Committee passed the first comprehensive Food Safety Law (FSL) after five years of drafting. Effective June 1, 2009, this FSL is the first time the Chinese Government will use Western terminology in calling for food safety regulation "from the production line to the dining table." Key organizational provisions create a state-level Food Safety Commission to oversee food-safety monitoring. While many of the ultimate responsibilities are not clear and fine tuning will continue, the big winner appears to be the Ministry of Health, which gets more unequivocal responsibility for creating the basic infrastructure for food-safety regulation and standard-setting. China's FSL adopts a legislative framework that modernizes approaches to food safety. (Source: National People's Congress, 02/28/09)

FAS/Beijing Comment: The new FSL makes positive steps by strengthening a number of areas, including the following: risk analysis in decision-making, public information and consumers' rights, process rather than outcome focus, and food safety supervision. However, it retains some of the shortcomings of the current legal structure: a lack of a clear, central authority, insufficient oversight of small producers, insufficient human health surveillance infrastructure and data collection, and weak enforcement. Despite the many challenges represented in China's vast population, its rush to modernization, and its still-evolving system of food production, the Food Safety Law appears to be an improvement over the existing complex set of legal measures.

Ministry of Health to Issue Dairy National Standard: Later this year, the Ministry of Health will publish the national standard for dairy product quality and safety, according to Vice Minister Chen. The newly published Food Safety Law requires that the Ministry consolidate existing hygiene, quality, and industry standards into national food safety standards. Mr. Chen added that pesticide and animal drug MRL, contaminant, and food additive standards are top priority for formulation or revision. (Source: China Food Newspaper, 03/04/09)

Record Exports of Aquatic Products: China exported a record \$10.6 billion worth of aquatic products in 2008. Combined Chinese imports and exports of aquatic products reached 6.8 million tons or \$16 billion, up 4.9 percent and 10.7 percent, respectively, year on year. Aquatic products remained the top agricultural export in 2008, accounting for 26 percent of the total value of agricultural exports. (Source: China Food Newspaper, 03/04/09)

Retailer Direct Farm Sourcing Growing in China: The use of direct sourcing for food and agricultural products by local supermarkets is growing. Local retailers are increasingly able to secure supplies of fresh vegetables and fruits direct from the farm allowing them to purchase higher quality products and sell at lower prices. According to Carrefour, the direct product supply link includes everything from fresh fruit and vegetables to dried seafood and other products. Carrefour plans to expand reliance on direct farm sourcing. Other retailers including Wu-Mart also plan to increase direct farm sourcing for certain products from 10 to a whopping 70 percent over the next several years. This change will reduce the use of middleman, reportedly lowering costs by as much as 20-30 percent. The new trend enables retailers to offer higher quality products at competitive prices as farmers receive

higher margins for their products. It is a win-win-win situation for producers, retailers, and consumers. (Source: Beijing Youth Daily, 03/05/09)

FAS/Beijing Comment: Although direct sourcing lowers costs to the end user and can increase efficiency in the supply chain, many challenges remain in China. Increased communication between the retailer and the farmer is necessary so that the farmer is aware of the retailer's supply needs, delivery requirements, and prices. Farmers also need to be better informed about average supermarket prices to accurately make sales decisions. However, higher quality products could be a positive outcome from direct sourcing, as farmers are encouraged to produce higher quality products to meet supermarket demand. Supermarkets in China traditionally carry higher grade fruits and vegetables. While still a long way off in China, ultimately direct sourcing could increase competition with U.S. agricultural imports, many of which end up in China's supermarkets.

Clenbuterol Contaminated Pork in Guangzhou: According to media reports in late February, pig organs contaminated with clenbuterol were sold at the Tianhe Livestock Wholesale Market. Clenbuterol, an additive that improves the meat/fat ratio, is not approved for use in livestock and banned in pig feed in China. Although residue inspection of pork is mandated at wholesale markets and slaughter plants, only two percent of slaughtered pigs are sampled and tested. Many consider this inadequate to prevent tainted pork from entering the market. Guangzhou Department of Agriculture claims that it is impossible to test all nine million pigs that are bought from other provinces every year. Related governmental departments will adopt more stringent and rigorous surveillance of pigs from Hunan Province as well as other provinces. (Source: ATO/Guangzhou and local press, 03/05/09)